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25th anniversary

GRAY DRUG STORES, INC.

Annual Report JUNE 30, 1953

GRAY DRUG STORES, INC.

MAIN OFFICE AND WAREHOUSE -:- 2400 SUPERIOR AVENUE
LABORATORY -:- 1701 CRAWFORD ROAD
CLEVELAND, OHIO

25th ANNIVERSARY EDITION

BOARD OF DIRECTORS

CARLYLE W. EVANS....Executive Vice-President, Gray Drug Stores, Inc.
HENRY H. GRAY.....Vice-President, Gray Drug Stores, Inc.
CHARLES B. MERRILL.....President, Merrill, Turben & Co.
GEORGE F. PRYOR.....Vice-President, The Cleveland Trust Company
JOHN W. REAVIS.....Partner, Jones, Day, Cockley and Reavis
ADOLPH WEINBERGER.....President, Gray Drug Stores, Inc.

OFFICERS

ADOLPH WEINBERGER.....President
CARLYLE W. EVANS.....Executive Vice-President
HENRY H. GRAY.....Vice-President
MILTON M. NEUBAUER.....Vice-President
LLOYD C. DOUGLASS.....Treasurer
LOUIS BERWITT.....Secretary
JOSEPH VALINS.....Assistant Secretary

TRANSFER AGENT AND REGISTRAR

THE CLEVELAND TRUST COMPANY.....Cleveland, Ohio

AUDITORS

ERNST & ERNST.....Cleveland, Ohio

COUNSEL

JONES, DAY, COCKLEY and REAVIS.....Cleveland, Ohio

25th anniversary

ADOLPH WEINBERGER
President, Gray Drug Stores, Inc.

If his story has a familiar ring—remember that these things happen often in America—seldom elsewhere.

Born in a small Hungarian town, Adolph Weinberger immigrated here at age 14, and soon was clerking in a Cleveland drug store. Undaunted by the long, hard hours, he worked his way through Western Reserve pharmacy school - Cleveland, and became a Registered Pharmacist.

In 1912 he opened his first drug store (see inset photo: Mr. Weinberger and helper behind fountain). After sixteen intervening years—success and setbacks too—the present chain was incorporated in 1928.

Today Adolph Weinberger is still the active, guiding head of the business he created and built.

REPORT TO SHAREHOLDERS

Cleveland, Ohio
September 10, 1953

To our Stockholders:

This year your Company is celebrating its Silver Anniversary. It is my privilege to present to you in this report a review of the operations and activities during the fiscal year ended June 30, 1953, and, by means of photographs and the Twenty Five Year Record of Progress shown on later pages, a few of the changes which have taken place during the past twenty-five years.

Sales for the year were the highest in the Company's history, $21,075,426 as compared to $19,268,081 last year, or an increase of 9.38%. Net income for the year after deducting all charges including taxes on income was $327,898 or $2.32 a share of Common Stock as compared with $1.78 a share for the preceding year and $2.32 for the year before that.

Five new stores, all in neighborhood shopping centers, were opened during the past year; one in each of the following Ohio cities: Akron, Canton, Cuyahoga Falls, Painesville and Warren. Seven non-profitable or marginal stores were disposed of while six units were remodelled. At the end of the fiscal year seventy-eight stores were in operation, two less than a year ago.

In my letter to you last year I mentioned that we had opened some stores with increased total floor area. These stores have progressed satisfactorily and are continuing to increase in sales volume. For the fiscal year ending June 30, 1954, it is our plan to open five or six additional large area stores.

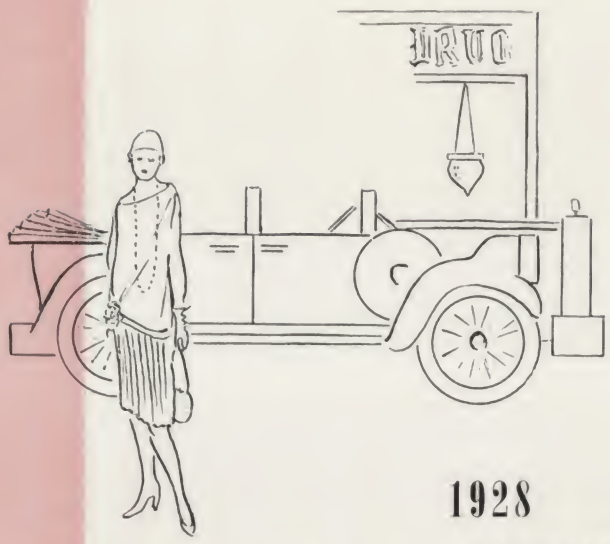
I extend my sincere appreciation to our employees, stockholders and directors for their splendid cooperation. It is through their intensive and efficient efforts that these satisfactory results of your Company's operations for the year were made possible. To our customers I acknowledge a debt of gratitude for their continued loyalty.

Respectfully submitted,

Adolph Weinberger

President

25th anniversary



1928

A jovial fellow in a brown derby and a serious man in a high, stiff collar were campaigning for the Presidency. And on November 1—while millions were preparing to vote for Al Smith and Herbert Hoover—a group of seven Cleveland drug stores was incorporated as Weinberger Drug Stores, Inc.*

The stores were typical of the times—small, dark, cluttered and crowded, and the fixtures nondescript. But in the black years to follow—while America tightened its belt and pinched its pennies—people were able to save money by patronizing these stores.

And so—while prouder establishments were closing their doors—the Weinberger Drug Stores, "Where Spending is Saving"—began to prosper and grow.

Exterior and Interior views of Typical Store during Early Years of Chain.

*Corporate name changed to Gray Drug Stores, Inc. during 1945, when chain was expanded to cover stores operated under six different names. "Gray" chosen as best of six for economic and advertising reasons.

GRAY'S KEEP PACE WITH THE TIMES...1928...1953

1953

The 78 stores in the present Gray Drug chain operate in many cities and have a net sales volume of over 21 million dollars. The typical Gray "super-store" is located in a new "drive-in" shopping center, or in the heart of a busy shopping district. It covers an area of from 6,000 to 9,000 square feet of floor space—and is designed to take full advantage of every modern merchandising trend.

The wide expanse of open-window front —the brightly-illuminated interiors, where customers shop in air-conditioned comfort— the wide aisles and modern "self-serve" fixtures—all these and hundreds of other features attract today's "streamlined shopper."

Just as the drug store of 1928 was a product of its era—so the Gray Drug Store of 1953 keeps pace with the times.

Exterior and Interior views of Modern Gray Drug Store.

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To most of us, a drug chain is represented by a group of stores. A look behind the scenes, however, reveals the extent of the organization—warehouse, offices, laboratories and many other operations—which keeps those stores functioning smoothly.

GRAY'S WAREHOUSE and OFFICES, 2400 Superior Ave., Cleveland, cover a city block; contain over 100,000 square feet of floor area, including new warehouse annex shown at left of picture.

A modern conveyor system connects all parts of warehouse—carrying over 10,000 different items from steel stock shelves to shipping docks.

Gray's fleet of big red trucks move tons of merchandise from warehouse to stores daily—delivering regular shipments throughout a 150-mile radius.

. . . SIGNS OF PROGRESS

GRAYS' PHOTO-FINISHING PLANT, located in Columbus, Ohio, brings high quality pictures and top-speed service to Central Ohioans. Using the latest automatic electronic equipment, the Columbus photo-laboratory turns out over a million pictures annually.

SUPERIOR LABORATORIES, INC., a subsidiary corporation, manufactures and packs drugs, cosmetics and fountain syrup for sale through Gray stores. Only the finest quality of merchandise is packed under the Gray label; sold at low prices.

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POINT OF PURCHASE "CLOSE-UPS"

PRESCRIPTION SERVICE
is still the heart of a Gray Drug Store. Competent pharmacists—spotless open-front departments—complete stocks of fresh, pure drugs—combine to earn confidence of doctors and public, filling over a half-million prescriptions annually.

CIGAR DEPARTMENTS
offer a wide variety of smoker's supplies and men's items as well as Gray's complete line of "humidor-fresh" cigars, cigarettes and tobaccos.

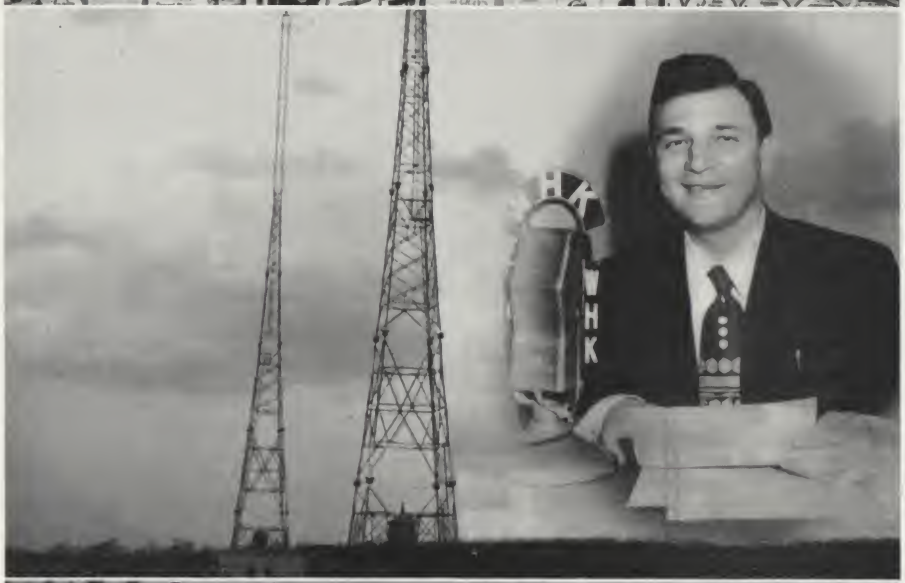
SODA FOUNTAINS
feature moderate-priced fountain specialties and foods—prepared on sanitary stainless-steel equipment; served quickly and courteously to busy shoppers.

CANDY DEPARTMENTS
offer a tremendous selection of bar goods chocolates, packaged candies and related items—temptingly displayed on gleaming white enameled fixtures.

ADVERTISING

NEWSPAPERS AND DIRECT-MAIL

Grays' newspaper ads appear regularly in 22 leading newspapers, reaching over 1½ million families. Hundreds of ads each year, plus mail-delivered circulars, combine to attract more store traffic and stimulate greater sales.



RADIO ADVERTISING

Grays' newscast programs are heard every day by thousands in the larger Ohio cities. Top-ranking announcers on leading stations bring Ohioans the news of the day—plus news of values at Gray's.

TELEVISION

A recently added medium in Grays' advertising schedule—television brings new advertising impact. The Gray Drug "News Parade"—telecast every weekday evening—is recognized as one of the foremost programs of its type in the Northern Ohio area.

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TWENTY FIVE YEAR RECORD of PROGRESS

Fiscal	Stores End of Year	Net Sales	Net Income (3)	Earnings Per Common Share (4)	Dividends Paid per Share
1929	17	$ 1,531,636	$120,107	$4.00	$1.67
1930	21	2,136,818	88,655	1.22	1.00
1931	24	2,604,609	100,482	1.33	1.00
1932	26	2,547,357	87,893	1.16	1.00
1933	26	2,498,932	80,382	1.06	1.00
1934	29	3,201,663	112,408	1.49	1.00
1935 (1)	29	1,790,809	57,587	.76	.50
1936	33	4,406,753	163,774	2.05	1.05
1937	37	5,384,723	243,088	3.04	1.90
1938	38	5,374,763	132,821	1.66	1.60
1939	38	5,154,803	113,863	1.42	.50
1940	40	5,509,435	139,430	1.74	.75
1941	39	6,925,221	172,476	1.92	1.00
1942	44	7,965,870	176,651	1.96	.75
1943	43	9,135,763	193,896	2.15	.50
1944	43	9,469,467	172,278	1.91	.75
1945	78	10,003,588	175,407	1.78	1.00
1946	91	14,700,500	366,910	2.47	1.65
1947	91	17,496,500	388,284	2.80	1.30
1948	78	16,227,105 (2)	293,263	2.11	1.30
1949	79	15,643,806	241,014	1.74	1.05
1950	77	15,283,817	281,994	2.03	.80
1951	74	16,833,818	324,702	2.32	.80
1952	80	19,268,081	250,767	1.78	1.00
1953	78	21,075,426	327,898	2.32	1.00

(1) Six months ended June 30, 1935. Changed fiscal year from calendar year to one ending June 30.

(2) In addition to the drop in sales resulting from the sale of thirteen stores, at the beginning of this year state cigarette excise taxes are excluded from sales.

(3) Before reflecting reserves for contingencies which were restored to earnings retained in the business as of June 30, 1948.

(4) Based upon the number of shares outstanding at the end of each year.

ACCOUNTANT'S REPORT

Board of Directors,
Gray Drug Stores, Inc.,
Cleveland, Ohio.

We have examined the consolidated balance sheet of Gray Drug Stores, Inc., and subsidiaries as of June 30, 1953, and the related statements of consolidated profit and loss, capital in excess of par value and earnings retained for use in the business for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of profit and loss, capital in excess of par value and earnings retained for use in the business present fairly the consolidated financial position of Gray Drug Stores, Inc., and subsidiaries at June 30, 1953, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST
Certified Public Accountants

Cleveland, Ohio
August 24, 1953

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CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT ASSETS			
Cash			$ 840,008
Accounts receivable, less allowance of $10,000			77,502
State tax stamps			70,292
Inventories—priced generally on the basis of the lower of cost (latest) or replacement market:			
At stores		$2,556,332	
At warehouse		1,198,134	
At laboratory		24,716	
		$3,779,182	
In transit		146,426	3,925,608
TOTAL CURRENT ASSETS			**$4,913,410**
OTHER ASSETS			
Cash surrender value of life insurance		$ 80,771	
Notes receivable from sale of stores		69,671	
Receivables for capital stock subscribed for by officers and employee		33,725	
Miscellaneous receivables, deposits, etc.		20,750	204,917
FIXED ASSETS—at cost, less allowances for depreciation and amortization			
Furniture and fixtures	$2,233,054		
Leasehold improvements	1,407,572	$3,640,626	
Less allowances for depreciation and amortization		1,325,426	2,315,200
PATENTS AND TRADE-MARKS			1
DEFERRED CHARGES			
Prepaid insurance, taxes, etc.			124,553
			$7,558,081

GRAY DRUG STORES, INC., AND SUBSIDIARIES, JUNE 30, 1953

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Notes payable:			
To bank		$ 100,000	
Portion of long-term debt due within one year		9,580	$ 109,580
Accounts payable and accrued expenses:			
Trade accounts and sundry accrued items		$1,193,102	
Salaries, wages, and commissions		255,872	
Pay roll taxes and taxes withheld from employees		78,129	
Taxes (other than federal taxes on income)		107,539	
Rent and interest		105,940	1,740,582
Federal taxes on income—estimated			423,334
TOTAL CURRENT LIABILITIES			**$2,273,496**

LONG-TERM DEBT

Note payable to insurance company—Note A		$1,191,060	
Less portion classified as current		9,580	1,181,480

SHAREHOLDERS' EQUITY

Capital stock (par value $1.00 a share):			
Authorized 150,000 shares (3,650 shares subject to stock options granted to certain officers and key employees on October 18, 1950, at $10.75 a share)			
Outstanding—141,500 shares	$ 141,500		
Subscribed— 1,775 shares	1,775	$ 143,275	
Capital in excess of par value		1,878,210	
		$2,021,485	
Earnings retained for use in the business—Note A		2,081,620	4,103,105

CONTINGENT LIABILITY

On note receivable (from sale of store) sold to bank—$49,700

$7,558,081

See notes to financial statements.

25th anniversary

STATEMENT of CONSOLIDATED PROFIT and LOSS

GRAY DRUG STORES, INC., AND SUBSIDIARIES

Year ended June 30, 1953

Net sales		**$21,075,426**
Cost of goods sold		13,372,588
		$ 7,702,838
Other operating income		53,815
		$ 7,756,653
Selling, general, and administrative expenses		6,986,925
		$ 769,728
Other income		7,990
		$ 777,718
Interest expense		64,515
PROFIT BEFORE FEDERAL TAXES ON INCOME		**$ 713,203**
Federal taxes on income—estimated:		
Provision for the year (includes $13,000 for excess profits tax)	$410,000	
Less adjustment of prior year's provision	24,695	385,305
NET PROFIT		**$ 327,898**

See notes to financial statements.

STATEMENT of CONSOLIDATED SURPLUS

GRAY DRUG STORES, INC., AND SUBSIDIARIES
Year ended June 30, 1953

CAPITAL IN EXCESS OF PAR VALUE		
Balance at July 1, 1952		$1,875,772
Excess of option price over par value of 250 shares of capital stock sold during the year		2,438
BALANCE AT JUNE 30, 1953		**$1,878,210**
EARNINGS RETAINED FOR USE IN THE BUSINESS		
Balance at July 1, 1952		$1,895,072
Net profit for the year		327,898
		$2,222,970
Cash dividends declared:		
$.25 a share paid October 1, 1952	$ 35,263	
$.25 a share paid January 2, 1953	35,337	
$.25 a share paid April 1, 1953	35,375	
$.25 a share paid July 1, 1953—Note B	35,375	141,350
BALANCE AT JUNE 30, 1953		**$2,081,620**

See notes to financial statements.

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NOTES TO FINANCIAL STATEMENTS

GRAY DRUG STORES, INC., AND SUBSIDIARIES
Year ended June 30, 1953

NOTE A — The loan agreement provides for interest at the rate of 3-3/4 per cent per annum and for repayment in semiannual installments of $50,000 each beginning not later than November 1, 1954. The Company also is required to make additional payments in each year to the extent of 20 per cent of the excess of consolidated net profit for the preceding year over $280,000 ($9,580 will be due on November 1, 1953, under such requirement); however, the additional payment shall not exceed $100,000 in any year. The agreement includes, among other things, certain provisions relating to the maintenance of consolidated net current assets and certain restrictions on the payment of dividends. Accordingly, consolidated earnings retained for use in the business available for dividends amounted to $509,502 at June 30, 1953.

NOTE B — On June 29, 1953, the Company deposited funds with the dividend disbursing agent for payment of the dividend payable July 1, 1953.

NOTE C — At June 30, 1953, the companies were lessees under a number of leases extending from one to twenty-three years. The aggregate annual minimum rental payable (many of such leases provide for additional rental if amounts based on specific percentages of sales exceed the minimum) amounted to approximately $760,000.

NOTE D — Allowances for depreciation and amortization aggregated $349,870 for the year.

NOTE E — Total contributions under the pension plan for employees of the companies amounted to approximately $90,000 for the year ended June 30, 1953, including amortization of cost of past service benefits to retirement age of participants.

GRAY DRUG STORES, INC.

OPERATING SEVENTY-EIGHT STORES
IN THE FOLLOWING CITIES:

OHIO

Akron
Alliance
Barberton
Boardman
Canton
Cleveland
Columbus
Cuyahoga Falls
Dayton
East Cleveland
Euclid
Fremont
Garfield Heights
Lakewood
Mansfield
Maple Heights
Massillon
Painesville
Sandusky
Steubenville
Struthers
University Heights
Warren
Wooster
Youngstown

Bradford, Pennsylvania • Erie, Pennsylvania